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Information from FHA's Office of Lender Activities and Program Compliance

# LENDER INSIGHT

Issue No. 14\* December 2016

## Enhancements to FHA's Quality Control Processes

FHA continues to improve and streamline the way it does business, and the Office of Lender Activities is building on recent accomplishments like the deployment of electronic Findings Letters for post endorsement technical reviews, implementation of the [Supplemental Performance Metric](#), and updates to Handbook 4000.1.

Our main focus in 2017 will be changes to FHA's technology and processes in order to implement the [Defect Taxonomy](#). The Defect Taxonomy, which was first published in June 2015, was designed to help lenders more easily identify and categorize specific loan origination and underwriting problem areas that could trigger FHA enforcement actions.

In the coming months, lenders should be on the lookout for detailed information about Defect Taxonomy and other process improvements, such as:

- Unified loan review work flows across divisions in each of FHA's Homeownership Centers
- Event-driven communications and reminders when loan review findings require a response
- Electronic upload functions for submission of mitigating documents for almost any kind of post-endorsement loan review, including those that are part of lender monitoring examinations
- Consolidated reports and dynamic data to help lenders identify problem areas and trends

As we begin to implement these changes and transition from current processes, some lenders may experience a temporary decrease in loans selected for review.

## Test Case Process Changes

In addition to overall loan review enhancements, we are making specific changes to the [Test Case](#) process for lenders seeking Unconditional Direct Endorsement (DE) authority.

On December 14, 2016, FHA published Mortgagee Letter 2016-21, which shifts the time frame for the submission of Test Cases from [pre-closing to post-closing](#). FHA-approved lenders that enter the Test Case phase on or after April 1, 2017 will be required to submit closed loans for pre-endorsement review by the Single Family Homeownership Centers; pre-closing Test cases will no longer be accepted.

These changes **will not** impact lenders that have already started the Unconditional DE Test Case phase before April 1, 2017 – those lenders may continue to submit pre-closing Test Cases until the approval process is complete. We're making this change to reinforce current FHA policy for Unconditional DE approval. Lenders submit Test Cases in order to demonstrate their ability to meet FHA's origination and underwriting requirements. FHA's Homeownership Centers conduct a thorough underwriting review of each loan and, although [we will continue to allow lenders to cure any defects](#), we expect lenders to have a qualified DE Underwriter on staff prior to starting the Test Case phase.

Lenders that enter the Test Case phase on or after April 1, 2017 will benefit from additional loan review enhancements currently underway. The review process for post-closing Test Cases will be very similar to the processes for FHA's quality control reviews including streamlined work flows and electronic notifications.

**Stay tuned for more.** To get the latest news, make sure that your [FHA INFO subscription](#) is up-to-date.

# QUARTERLY LOAN REVIEW UPDATE

## Post Endorsement Technical Reviews

These charts provide sample characteristics, ratings, and top mitigated findings between July 1, 2016 and September 30, 2016.

*FHA has conducted 47,882 post endorsement technical reviews between Oct 2014 and November 2016.*

*The initial material defect rate increased from 50% in the previous quarter to 53% in the most recent quarter.*

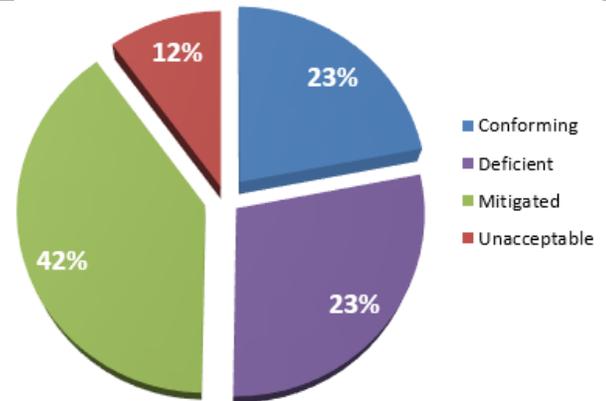
## Loan Sample Characteristics

Type	#	% of Total
Purchase	4,476	75%
Streamline	593	10%
Rate & Term	414	7%
HECM	490	8%
Total	5,973	100%

Performing	3,063	51%
EPDs	2,405	40%
Random	505	9%
Total	5,973	100%

## LOAN REVIEW RATINGS AS OF SEPTEMBER 2016

Performance Type	Outcome
Conforming	1,363
Deficient	1,396
Mitigated	2,474
Unacceptable	740
Total	5,973



## QUESTIONS?

Visit our FHA Lender page at: [www.hud.gov/lenders](http://www.hud.gov/lenders) and our online FAQ site at: [www.hud.gov/answers](http://www.hud.gov/answers)

Email: [answers@hud.gov](mailto:answers@hud.gov)

Phone: 1-800-CALL-FHA (225-5342) or TTY: 1-800-877-8339

## TOP 5 MITIGATED FINDINGS

Description	Category	Code	# Initial Unacceptable	# Mitigated after 6	Mitigation rate
Form HUD 92900-A Not properly completed or missing	Mortgage Eligibility	DC11	734	576	78%
Unacceptable, unsupported or insufficient source of funds	Borrower Assets	FD10	612	426	70%
Uniform Residential Loan Application not properly completed or missing	Mortgage Eligibility	DC10	581	463	80%
Concerns related to assets derived from gifts	Borrower Assets	FD20	547	384	70%
Income improperly documented	Borrower Income	IC20	442	286	65%